



CRS Report for Congress

Latvia: Current Issues and U.S. Policy

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Summary

After restoration of its independence in 1991 following decades of Soviet rule, Latvia made rapid strides toward establishing a democratic political system and a dynamic, free market economy. It achieved two key foreign policy goals when it joined NATO and the European Union in 2004. However, relations with Russia remain strained over such issues as the country's Russian-speaking minority and energy relations. Latvia and the United States have excellent relations. Latvia has deployed troops to Iraq and Afghanistan, and plays a significant role in efforts to encourage democracy and a pro-Western orientation among post-Soviet countries. This report will be updated as needed.

Current Political and Economic Situation

In the nearly 17 years since Latvia gained independence, the country's political scene has been characterized by the creation and dissolution of numerous parties and shifting alliances among them. Latvia has had 14 governments since independence, none of them serving out a full parliamentary term. Many of the parties lack a clear ideological profile and have shallow roots in society. Critics assert that the parties are in large part interest groups struggling for the narrow, business interests of their members and financial backers. High-level corruption remains a significant problem in Latvia, as elsewhere in the region. Nevertheless, due to a broad policy consensus among the elites and in society at large, Latvia has followed a consistent general course—building democratic institutions, strengthening the rule of law, establishing a free-market economy, and integrating into NATO and the European Union (EU).

Latvia At A Glance

Population: 2.25 million (2008 est.)

Ethnic Composition: Latvian 57.7%, Russian 29.6%, Belarusian 4.1%, Ukrainian 2.7%

Total Area: 64,589 sq. km. (slightly larger than West Virginia)

Gross Domestic Product: \$27 billion (2007 est. at official exchange rate)

Source: CIA, *The World Factbook* 2008.

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Latvia's current government is led by Prime Minister Ivars Godmanis of the First Party-Latvia's Way (LPP-LC). It was formed in December 2007, after the fall of the previous government. Aside from the LPP-LC, the government consists of the People's Party, the Union of Greens and Farmers (ZZS), and the nationalist For Fatherland and Freedom-Latvian National Independence Movement (TB-LNNK). The coalition holds a slender 53-seat majority in the 101-member Saeima (parliament).

In September 2007, the previous Prime Minister, Aigars Kalvitis, heading a government composed of the same parties as the current government, tried to fire Aleksejs Loskutovs, the head of Latvia's independent Corruption Monitoring and Prevention Bureau, allegedly for financial irregularities. The move was widely viewed in Latvia as an effort to quash high-profile corruption investigations against powerful supporters of the government. Street demonstrations forced the parliament to drop the effort and the government fell in December 2007.

Latvia last held parliamentary elections in October 2006. New elections do not have to be held until 2010, but the thin and shrinking majority of the government may force an earlier vote. The Loskutovs affair has underlined Latvia's ongoing corruption problem, and, more generally, the tendency for key decisions in Latvia to be made non-transparently by a small number of self-interested insiders.

Latvian President Valdis Zatlers was elected by the Saeima in July 2007. Zatlers is an orthopedic surgeon and was the director of the Latvian Traumatology and Orthopedics Center. He had no prior political affiliation or experience before his election. His election was a surprise to many Latvians. He was reportedly a compromise choice of the ruling coalition when they could not agree on other candidates.

Although the Latvian presidency has few powers in Latvia's parliamentary system, the president plays an important role in representing Latvia abroad and symbolizing the state's moral principles rather than narrow party interests. His predecessor, Vaira Vike-Freiberga, was widely believed to have fulfilled these functions very well, and was Latvia's most popular politician until term limits forced her retirement. Zatlers's reputation suffered a blow shortly after his election, when it emerged that he had taken gratuities from his patients and had not paid taxes on those payments. He said that he had forgotten to report the income and paid the taxes. However, he may have recovered his position somewhat by criticizing the government during the Loskutovs affair.

Economic Situation. Latvia has experienced rapid economic growth in recent years, with Gross Domestic Product increasing by 12.2% in 2006 and 10.3% in 2007. However, growth slowed sharply in the last quarter of 2007 and is expected to decelerate during 2008, in line with other economies in the region. Inflation remains a serious problem. Average annual inflation in 2007 was 10.1%, and inflation in March 2008 was 16.8% on a year-on-year basis. These increases are in part due to higher food and energy costs. Latvia has maintained a prudent fiscal policy; the government projects a budget

surplus of 1% for 2008. Latvia suffered from a large current account deficit of 22.8% of GDP in 2007. However, the deficit is declining as economic growth slows.¹

Latvia's Foreign Policy and Relations with the United States

After reestablishing its independence in 1991, Latvia's key foreign policy goals were to join NATO and the European Union. It joined both of them in 2004. Latvia continues to try to bring its armed forces up to NATO standards, spending the 2% of GDP recommended by NATO. Latvia lags behind most EU members in many areas, and receives substantial EU funding to address such issues as border security, public infrastructure, and the environment. Latvia has had to put off plans to adopt the euro as its currency until at least 2012 or 2013, due to an inflation rate well above the EU's strict criteria for euro zone membership.

Latvia enjoys a close relationship with its Baltic neighbors and the Nordic countries. It has acted as an advocate for democratic and pro-Western forces in Belarus, Ukraine, Moldova, Georgia, and other countries bordering Russia. Latvia supported the unsuccessful efforts of Ukraine and Georgia to receive a Membership Action Plan at the April 2008 NATO summit in Bucharest. It supported the summit communique's commitment to eventual Ukrainian and Georgian membership in NATO.

Relations with Russia. Latvia and Russia have had sometimes difficult relations. Russia has expressed irritation at NATO's role in patrolling the airspace of Latvia and the other two Baltic states, and the non-participation of Latvia and the other Baltic states in the Conventional Forces in Europe (CFE) treaty, which Moscow claims could lead to the deployment of large NATO forces on its northwest border. In December 2007, Russia suspended its implementation of the CFE treaty.

Russia claims that Latvia violates the human rights of its ethnic Russian minority, which, along with other Russian-speaking groups, make up 37.5% of the country's population. While international organizations have generally rejected these charges, many Russian-speakers are poorly integrated into Latvian society. When Latvian independence was restored in 1991, only those persons who has been citizens when the Soviet Union took over the country in 1940 or their descendants were recognized as Latvian citizens. This policy excluded most Russian-speakers. In part due to naturalization (which requires passing a Latvian language test), 57.5% of ethnic Russians living in Latvia now have Latvian citizenship. The others remain stateless or hold Russian citizenship. Over 18% of Latvia's permanent residents lack Latvian citizenship.² Noncitizens cannot hold public office or vote in elections. Russia has also criticized laws that demand Latvian-language competency for many jobs and require that most secondary education take place in the Latvian language.

Latvia has expressed concern about Russia's use of its energy exports for political purposes. Latvia is virtually entirely dependent on Russia for oil and natural gas. Latvia and the United States are concerned about the North European Gas Pipeline project,

¹ Economist Intelligence Unit Country Report: Latvia, April 2008.

² "Citizenship in Latvia," Latvian Foreign Ministry website, [<http://www.mfa.gov.lv/en/policy/4641/4642/4651>].

which will transit the Baltic Sea floor between Russia and Germany, bypassing central European countries. Latvian and U.S. officials have called for the establishment of a variety of energy supply routes between the Caspian Sea region and Europe, in order to provide greater energy security to Latvia and other countries in the region.³

Russia has reduced the role of Latvia in its oil transit trade. The Russian-government controlled Transneft oil pipeline company cut off all oil shipments to the Latvian oil terminal at the port of Ventspils, after having decreased shipments in late 2002. The move was a blow to Latvia, as Ventspils has been important to its economy. Transneft diverted the oil shipments to its own Baltic Pipeline System and the Russian port of Primorsk, which it controls. Transneft claims that there is no demand for using Ventspils, a claim viewed with skepticism by outside observers. Most saw the move as a power play by Transneft to secure a controlling share of the firm Ventspils Nafta, which operates the oil terminal.

However, Russian-Latvian relations have improved in some areas. In December 2007, a Russian-Latvian border treaty entered into force. Latvian business interests have reportedly benefitted from an increase in transit business from Russia in the past year, as Russian traffic has declined with neighboring Estonia due to deteriorating relations between Moscow and Tallinn.

U.S.-Latvian Relations. The United States and Latvia have enjoyed excellent relations. The United States refused to recognize the Soviet annexation of Latvia in 1940 and hailed the restoration of the country's independence in 1991. The United States strongly supported Latvia's membership in NATO and the EU. The two countries have cooperated in Iraq and Afghanistan. From May 2003 until June 2007 (when the last 120 of its combat troops were withdrawn), a total of 1,153 soldiers had served in the country, in a number of rotations. Three Latvian soldiers died in Iraq. After withdrawing from Iraq, Latvia boosted its contribution to the ISAF peacekeeping force in Afghanistan from 35 to its current level of 100 men. There are 19 Latvian troops in Kosovo as part of NATO-led peacekeeping force KFOR.⁴

Latvia receives a modest amount of security assistance from the United States to help it improve its capabilities within NATO, including its deployment in Afghanistan. In FY2008, Latvia is expected to receive \$2.55 million in U.S. aid, including \$1.5 million in Foreign Military Financing and \$1.05 million in IMET military training assistance. For FY2009, the Administration requested \$4.05 million in military aid, \$3 million in FMF and \$1.05 in IMET.⁵

There have been a few controversies in U.S.-Latvian relations. Perhaps the most sensitive issue is Latvia's strong desire to join the U.S. Visa Waiver program. Latvia and many other central and eastern European countries in the same position are upset that their

³ Testimony of Gregory Manuel, Matthew Bryza, and Steven Mann in a hearing before the Commission on Security and Cooperation in Europe, June 25, 2007.

⁴ Latvian Defense Ministry website, [<http://www.mod.gov.lv>].

⁵ FY2009 Congressional Budget Justification for Foreign Operations, from the State Department website [<http://www.mfa.gov.lv/en/policy/4641/4642/4651/>].

citizens are required to seek visas for U.S. travel, despite the fact that visas are not required for most EU countries in western Europe. Brussels has also demanded equal treatment for all EU countries. In March 2008, the United States and Latvia signed a memorandum of understanding on steps Latvia has taken and needs to take to join the Visa Waiver Program. U.S. officials say Latvia could join the program by the end of this year.⁶

Another controversy concerned speeches in October 2007 by outgoing U.S. Ambassador to Latvia Catherine Todd Bailey that were interpreted in Latvia as frank criticisms of corruption and the state of democratic development of Latvia, in the wake of the Loskutovs affair. The move raised eyebrows among some commentators in the Latvian press, although Bailey received backing from State Department officials. The current U.S. ambassador, Charles Lawson, has also mentioned strengthening Latvia's democracy as a key U.S. goal in Latvia.⁷

Figure 1. Latvia



Source: Map Resources. Adapted by CRS.

⁶ “DHS Signs Visa Waiver Agreements with Estonia and Latvia,” March 12, 2008, from the Department of Homeland Security website, [http://www.dhs.gov]. For more on the Visa Waiver Program, see CRS Report RL32221, *Visa Waiver Program*, by Alison Siskin.

⁷ Agnese Margevica, “Failed to Light Stove of Revolution,” *Neatkariga Rita Avize* newspaper, January 24, 2008, as carried by BBC Monitoring.